

**Decatur County Hospital**  
Leon, Iowa

**Financial Statements**  
**June 30, 2009 and 2008**

**Together with Independent Auditor's Report**

# Decatur County Hospital

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## Decatur County Hospital

### Officials June 30, 2009

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<b>Board of Trustees</b>	<b>Title</b>	<b>Term Expires</b>
Guy Clark	President	December 2010
Linda Chastain	Treasurer	December 2010
Gwen Simpson	Secretary	December 2012
Heidi Bell	Trustee	December 2014
Leon Kessel	Trustee	December 2010
Delbert Lee	Trustee	December 2012
Dave Stone	Trustee	December 2012

<b>Hospital Officials</b>	<b>Title</b>	<b>Term Expires</b>
Lynn Milnes	Administrator	Indefinite
Larry Brown	CFO	Indefinite

## Independent Auditor's Report

To the Board of Trustees of  
Decatur County Hospital  
Leon, Iowa:

We have audited the accompanying basic financial statements of Decatur County Hospital (Hospital), as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Hospital for the year ended June 30, 2008, were audited by other auditors whose report, dated November 17, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of Decatur County Hospital as of June 30, 2009, and the results of its operations, changes in net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2009, on our consideration of the Hospital's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 7 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information included in Exhibits 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Seim Johnson Sestak & Quist, LLP*

Omaha, Nebraska,  
November 23, 2009.

# **Decatur County Hospital**

## **Management's Discussion and Analysis June 30, 2009 and 2008**

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### **Introduction**

This management's discussion and analysis of the financial performance of Decatur County Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended June 30, 2009 and 2008. It should be read in conjunction with the accompanying financial statements of the Hospital.

### **Financial Highlights**

- Cash, cash equivalents and short-term investments increased between 2009 and 2008 by \$88,529 or 4% and increased between 2008 and 2007 by \$1,096,955 or 78%.
- The Hospital's net assets increased \$735,484 or 11% in 2009 and increased \$623,898 or 10% in 2008.
- The Hospital reported an operating income in 2009 of \$30,688 and operating loss in 2008 of \$135,854. The results from operations in 2009 changed by \$166,542 from the operating loss reported in 2008 and operating loss in 2008 decreased by \$444,819 from the operating income reported in 2007.
- Net nonoperating revenue decreased by \$54,956 or 7% in 2009 compared to 2008 and decreased by \$19,018 or 2% in 2008 compared to 2007.

### **Required Financial Statements**

- The basic financial statements of Decatur County Hospital report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long term financial information about its activities.
- The Balance Sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations of the Hospital's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and the financial flexibility of the Hospital.
- All of the current year's revenue and expenses are accounted for in the Statements of Revenue Expenses, and Changes in Net Assets. This statement measures improvements in the Hospital's operations over the past two years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources.
- The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Hospital's cash from operations, investing, and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

### **Financial Analysis of Decatur County Hospital**

The Balance Sheets and the Statements of Revenue, Expenses, and Changes in Net Assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and changes in them. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in the healthcare industry, changes in Medicare and Medicaid regulations, and changes in commercial insurance contracting should also be considered.

# Decatur County Hospital

## Management's Discussion and Analysis June 30, 2009 and 2008

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### The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$735,484 or 11% in 2009 over 2008 net assets as shown in Table 1.

**Table 1: Assets, Liabilities and Net Assets**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2009 Change</u>
<b>Assets:</b>				
Current assets	\$ 4,482,831	4,381,576	3,263,157	2.3%
Assets limited as to use or restricted	1,786,178	1,715,781	1,652,724	4.1%
Capital assets, net	<u>2,685,525</u>	<u>3,002,121</u>	<u>3,305,344</u>	<u>(10.5%)</u>
<b>Total assets</b>	<u>8,954,534</u>	<u>9,099,478</u>	<u>8,221,225</u>	<u>(1.6%)</u>
<b>Liabilities:</b>				
Long-term debt outstanding	166,276	876,507	1,394,986	(81.0%)
Other current and noncurrent liabilities	<u>1,333,640</u>	<u>1,503,837</u>	<u>731,003</u>	<u>(11.3%)</u>
<b>Total liabilities</b>	<u>1,499,916</u>	<u>2,380,344</u>	<u>2,125,989</u>	<u>(37.0%)</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	2,436,249	1,897,932	1,996,317	28.4%
Unrestricted	<u>5,018,369</u>	<u>4,821,202</u>	<u>4,098,919</u>	<u>4.1%</u>
<b>Total net assets</b>	<u>\$ 7,454,618</u>	<u>6,719,134</u>	<u>6,095,236</u>	<u>10.9%</u>

In 2009, significant changes in the Hospital's assets were due to:

- Cash and cash equivalents decreased by \$1,516,455 due to a change in investment strategy moving funds from a money market account into certificates of deposit.
- Internally designated assets increased by \$70,397 or 4% primarily due to reinvested interest on certificates of deposits.
- Net capital assets decreased by \$316,596 or 11% due to fewer fixed asset additions and increased depreciation expense.
- Total liabilities decreased from 2008 due to the payment of outstanding debt during the year.

In 2008, significant changes in the Hospital's assets were due to:

- Cash and cash equivalents decreased by \$1,085,598 due to increased cash collections and receiving two lump sum interim settlement adjustments from third party payers during 2008 that will be settled with the current year cost reports subsequent to year end.
- Internally designated assets increased by \$63,057 or 4% primarily due to reinvested interest on certificates of deposits.

# Decatur County Hospital

## Management's Discussion and Analysis June 30, 2009 and 2008

- Net capital assets decreased by \$303,223 or 9% due to fewer fixed asset additions and increased depreciation expense.
- Total liabilities increased from 2007 due to an increase in accounts payable outstanding at year end.

### Operating Results and Changes in the Hospital's Net Assets

In 2009, the Hospital's net assets increased by \$735,484 or 11% as shown in Table 2. This increase is made up of several different components and represents an increase of \$111,586 compared with the increase in net assets for 2008 of \$623,898. The Hospital's net assets decreased from \$1,087,735 in 2007 to \$623,898 in 2008.

**Table 2: Operating Results and Changes in Net Assets**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2009 Change</u>
<b>Operating revenue:</b>				
Net patient service revenue	\$ 8,598,170	8,331,283	8,233,417	3.2%
Provision for bad debt	(325,937)	(314,868)	(253,625)	3.5%
Other operating revenues	<u>168,552</u>	<u>161,877</u>	<u>126,862</u>	<u>4.1%</u>
<b>Total operating revenue</b>	<u>8,440,785</u>	<u>8,178,292</u>	<u>8,106,654</u>	<u>3.2%</u>
<b>Operating expenses:</b>				
Salaries and benefits	4,334,356	4,105,586	3,982,950	5.6%
Purchased services and other	3,617,986	3,605,361	3,283,423	0.4%
Depreciation and amortization	414,509	530,673	462,387	(21.9%)
Interest	<u>43,246</u>	<u>72,526</u>	<u>68,929</u>	<u>(40.4%)</u>
<b>Total operating expenses</b>	<u>8,410,097</u>	<u>8,314,146</u>	<u>7,797,689</u>	<u>1.2%</u>
<b>Operating income (loss)</b>	<u>30,688</u>	<u>(135,854)</u>	<u>308,965</u>	<u>(122.6%)</u>
<b>Non-operating revenue and expenses</b>				
Property taxes	608,111	591,637	587,724	2.8%
Investment income	75,479	134,260	119,870	(43.8%)
Non-capital grants and contributions	<u>21,206</u>	<u>33,855</u>	<u>71,176</u>	<u>(37.4%)</u>
<b>Total non-operating revenue, net</b>	<u>704,796</u>	<u>759,752</u>	<u>778,770</u>	<u>(7.2%)</u>
<b>Increase in net assets</b>	<u>735,484</u>	<u>623,898</u>	<u>1,087,735</u>	<u>17.9%</u>
<b>Net assets beginning of year</b>	<u>6,719,134</u>	<u>6,095,236</u>	<u>5,007,501</u>	<u>10.2%</u>
<b>Net assets end of year</b>	<u>\$ 7,454,618</u>	<u>6,719,134</u>	<u>6,095,236</u>	<u>10.9%</u>

# **Decatur County Hospital**

## **Management's Discussion and Analysis June 30, 2009 and 2008**

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### **Operating Income (Loss)**

The first component of the overall change in the Hospital's net assets is its operating income (loss) generally, the difference between net patient service and other operating revenue and the expenses incurred to perform those services. In 2009 and 2007, the Hospital reported operating income and in 2008 reported an operating loss. The Hospital was formed and is operated primarily to serve residents of Decatur County and the surrounding area and the results of operations often reflect losses from operations. As a result of the operating losses, the Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The operating income of \$30,688 for 2009 was an increase of \$166,542 from the operating loss in 2008 of \$135,854. The primary components of the increase in results from operations in 2009 are:

- Net patient service revenue increased \$266,887 from 2008 and total operating expenses in 2009 increased \$95,951 or 1% over 2008.
- Gross patient service revenue decreased \$120,492 or 1% in 2009 as compared to 2008; however, contractual adjustments decreased 13% from 2008 primarily due to a decrease in Medicare allowances.
- Salaries and wages and employee benefits increased 6% or \$228,770 in 2009 due to salary and wage adjustments, and increases in IPERS and health insurance costs. The number of full time equivalents (FTEs) increased from 86 in 2008 to 87 in 2009.
- Professional fees increased in 2009 by \$54,669 or 4% due to a contract for cardiology services and an increase in emergency room coverage fees.
- Depreciation expense decreased in 2009 by \$116,164 or 22% primarily due to the CPSI computer system being fully depreciated as of August 2008.

The operating loss of \$135,854 for 2008 was a decrease of \$444,819 from the operating income in 2007 of \$308,965. The primary components of the decrease and the operating loss in 2008 are:

- Net patient service revenue increased \$97,866 from 2007 and total operating expenses in 2008 increased \$516,457 or 7% over 2007.
- Gross patient service revenue increased \$773,266 or 7.3% in 2008 as compared to 2007; however, contractual adjustments increased 33% from 2007 primarily due to prior year cost report settlements reducing contractual allowances in 2007 and an increase in the Medicare Advantage contractual allowances in 2008.
- Salaries and wages and employee benefits increased 3% or \$122,636 in 2008 due to a salary and wage adjustment. The number of full time equivalents (FTEs) decreased from 94 in 2007 to 88 in 2008.
- Professional fees increased in 2008 by \$53,978 or 4% due to an increase in use of contracted services for emergency room coverage.
- Depreciation expense increased in 2008 by \$68,286 or 15% due to the purchase of the PAC radiology equipment in 2008 and purchases in 2007 having a full year of depreciation expense in the current year.



# **Decatur County Hospital**

## **Management's Discussion and Analysis June 30, 2009 and 2008**

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### **Nonoperating Revenue and Expenses**

Nonoperating revenue and expenses consist primarily of property taxes levied by the Hospital, interest income and grants, all of which remained relatively constant in 2009 as compared to 2008, except for the decrease in interest income of \$58,781 and the decrease in grant revenue of \$12,649.

### **The Hospital's Cash Flows**

Changes in the Hospital's cash flows are consistent with changes in the operating results and nonoperating revenue and expenses in 2009 and 2008, discussed earlier.

### **Capital Asset and Debt Administration**

#### **Capital Assets**

At the end of 2009 and 2008, the Hospital had \$2,685,525 and \$3,002,121, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2009 and 2008, the Hospital purchased new capital assets costing \$97,913 and \$227,450, respectively.

#### **Debt**

At June 30, 2009 and 2008, the Hospital had \$249,276 and \$1,085,739, respectively, in loans and capital lease obligations outstanding. New debt issued in 2009 was for a copier. No new debt was issued in 2008.

### **Contacting the Hospital's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 641.446.4871.

# Decatur County Hospital

## Balance Sheets

June 30, 2009 and 2008

<b>ASSETS</b>	<b>2009</b>	<b>2008</b>
Current assets:		
Cash and cash equivalents	\$ 771,182	2,287,637
Short-term investments	1,825,240	220,256
Receivables -		
Patients, net of estimated uncollectible accounts		
of \$188,536 in 2009 and \$175,000 in 2008	923,384	971,033
Property taxes	607,559	581,820
Other	25,874	15,098
Inventories	188,180	163,904
Prepaid expenses	141,412	141,828
Total current assets	4,482,831	4,381,576
Assets limited as to use or restricted	1,786,178	1,715,781
Capital assets, net	2,685,525	3,002,121
Total assets	\$ 8,954,534	9,099,478
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Current portion of long-term debt	\$ 83,000	209,232
Accounts payable	104,647	241,351
Accrued salaries, vacation and benefits payable	335,436	290,434
Estimated third-party payor settlements	202,998	181,000
Deferred revenue for property taxes	607,559	581,820
Total current liabilities	1,333,640	1,503,837
Long-term debt, net of current portion	166,276	876,507
Total liabilities	1,499,916	2,380,344
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	2,436,249	1,897,932
Unrestricted	5,018,369	4,821,202
Total net assets	7,454,618	6,719,134
Total liabilities and net assets	\$ 8,954,534	9,099,478

See notes to financial statements

## Decatur County Hospital

### Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2009 and 2008

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	<u>2009</u>	<u>2008</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 8,598,170	8,331,283
Provision for bad debt	<u>(325,937)</u>	<u>(314,868)</u>
Net patient service revenue	8,272,233	8,016,415
Other operating revenue	<u>168,552</u>	<u>161,877</u>
Total operating revenue	<u>8,440,785</u>	<u>8,178,292</u>
EXPENSES:		
Salaries	3,270,963	3,140,855
Employee benefits	1,063,393	964,731
Purchased services and professional fees	1,425,089	1,370,420
Supplies and other	2,192,897	2,234,941
Depreciation and amortization	414,509	530,673
Interest expense	<u>43,246</u>	<u>72,526</u>
Total operating expenses	<u>8,410,097</u>	<u>8,314,146</u>
OPERATING INCOME (LOSS)	<u>30,688</u>	<u>(135,854)</u>
NONOPERATING REVENUE:		
Property taxes	608,111	591,637
Investment income	75,479	134,260
Noncapital grants and contributions	<u>21,206</u>	<u>33,855</u>
Nonoperating revenue	<u>704,796</u>	<u>759,752</u>
INCREASE IN NET ASSETS	735,484	623,898
NET ASSETS, Beginning of year	<u>6,719,134</u>	<u>6,095,236</u>
NET ASSETS, End of year	<u>\$ 7,454,618</u>	<u>6,719,134</u>

*See notes to financial statements*

# Decatur County Hospital

## Statements of Cash Flows

For the Years Ended June 30, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 8,341,879	8,637,587
Cash paid to employees	(4,289,354)	(4,132,481)
Cash paid to suppliers and contractors	(3,760,100)	(3,673,298)
Other receipts and payments, net	157,777	159,225
Net cash provided by operating activities	450,202	991,033
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants and contributions	21,206	33,855
County tax receipts	608,111	591,637
Net cash provided by noncapital financing activities	629,317	625,492
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment	(116,363)	(209,000)
Principal payments on long-term debt	(836,463)	(309,247)
Interest payments on long-term debt	(43,246)	(72,526)
Net cash used in capital and related financing activities	(996,072)	(590,773)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in noncurrent cash	5,530	12,679
Purchase of investments and assets limited as to use or restricted	(2,152,735)	(367,874)
Proceeds from sale of investments and assets limited as to use or restricted	471,824	280,781
Investment income	75,479	134,260
Net cash provided by (used in) investing activities	(1,599,902)	59,846
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,516,455)	1,085,598
CASH AND CASH EQUIVALENTS, Beginning of year	2,287,637	1,202,039
CASH AND CASH EQUIVALENTS, End of year	\$ 771,182	2,287,637

See notes to financial statements

## Decatur County Hospital

### Statements of Cash Flows (Continued)

For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 30,688	(135,854)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	414,509	530,673
Interest expense included in operating expenses	43,246	72,526
(Increase) decrease in current assets -		
Receivables -		
Patients	47,649	29,172
Property taxes	(25,739)	(16,319)
Other	(10,776)	(2,652)
Inventories	(24,276)	36,959
Prepaid expenses	416	(68,624)
Increase (decrease) in current liabilities -		
Accounts payable	(118,254)	(36,272)
Accrued salaries, vacation and benefits payable	45,002	(26,895)
Estimated third-party payor settlements	21,998	592,000
Deferred revenue for property taxes	25,739	16,319
Net cash provided by operating activities	\$ <u>450,202</u>	<u>991,033</u>

*See notes to financial statements*

# Decatur County Hospital

## Notes to Financial Statements June 30, 2009 and 2008

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### (1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following is a summary of significant accounting policies of Decatur County Hospital (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America. The Hospital is a Critical Access Hospital, operating with 25 acute-care beds. The Hospital also has related health care ancillary and outpatient services.

#### A. *Reporting Entity*

Accounting principles generally accepted in the United States of America require the financial reporting entity to include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. The Hospital was organized under Chapter 347 of the Iowa Code. The Hospital is a municipal corporation governed by a Board of Trustees, which is elected by the public and has the exclusive responsibility and accountability for the decisions it makes. It has the right to sue and to be sued and has the right to buy, sell, lease or mortgage property in its own name. Based upon these criteria, the Hospital is considered a primary government and there are no agencies or entities which should be presented with the Hospital.

#### B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

#### C. *Basis of Presentation*

The Balance Sheets display the Hospital's assets and liabilities, with the differences reported as net assets. Net assets are reported in two categories:

*Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

#### D. *Measurement Focus and Basis of Accounting*

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

# Decatur County Hospital

## Notes to Financial Statements June 30, 2009 and 2008

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The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

### *E. Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### *F. Cash and Cash Equivalents*

Cash and cash equivalents for purposes of the statements of cash flows include highly liquid investments with an original maturity of three months or less, excluding amounts limited as to use by the Board of Trustees or donor.

### *G. Patient Receivables, Net*

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not assessed interest.

Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

### *H. Inventories*

Inventories are stated at the lower of cost (first-in, first-out method) or market.

### *I. Property Tax Receivable*

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

# Decatur County Hospital

## Notes to Financial Statements June 30, 2009 and 2008

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### *J. Assets Limited as to Use or Restricted*

By Board of Trustees – Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements and equipment. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

### *K. Short-Term Investments*

Short-term investments are assets available for operations without donor imposed restrictions for capital acquisition or endowment. Short-term investments consist of certificates of deposit and accrued interest, which are recorded at fair value.

### *L. Capital Assets*

Capital assets acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided in the straight-line method based upon useful lives set forth using general guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in the depreciation and amortization in the financial statements. Lives range by capital asset classification as follows:

Land improvements	10 to 25 years
Buildings and building improvements	5 to 40 years
Equipment, computers, and furniture	3 to 20 years

### *M. Compensated Absences*

Hospital employees accumulate a limited amount of earned but unused Paid Time Off (PTO) hours for subsequent use or for payment upon termination, death, or retirement and may be carried forward by an employee at a maximum amount of 240 hours. PTO expense is accrued as an expense and a liability as it is earned. Accrued PTO payable at June 30, 2009 and 2008 was \$177,859 and \$177,673 respectively.

### *N. Deferred Revenue*

Although certain revenue is measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

### *O. Net Patient Service Revenue*

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge or per ambulatory payment classification, reimbursed costs, discounted charges, and per diem payments. The Hospital has agreements with third-party payors who provide payment based on fee schedule amounts. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.



# Decatur County Hospital

## Notes to Financial Statements June 30, 2009 and 2008

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*P. Grants and Contributions*

From time to time, the Hospital receives contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met.

*Q. Income Taxes*

Under the Code of Iowa, Chapter 347, the Hospital is an instrumentality of the County of Decatur, Iowa. As such, the Hospital is exempt from paying income taxes.

*R. Operating Revenue and Expenses*

The Hospital's statement of revenue, expenses and changes in net assets distinguishes between operating and nonoperating revenue and expenses. Operating revenue result from exchange transactions associated with the provision of health care services – the Hospital's principal activity. Nonexchange revenue, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

*S. Charity Care*

To fulfill its mission of community service, the Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of these amounts determined to qualify as charity care, they are not reported in the statements of operations. Charges excluded from revenue under the Hospital's charity care policy were \$54,176 and \$24,230 for 2009 and 2008, respectively.

*T. Risk Management*

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

*U. Subsequent Events*

The Hospital considered events occurring through the report date for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

*V. Reclassification*

Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 reporting format.

**(2) Cash, Investments and Assets Limited as to Use or Restricted**

The Hospital's deposits in banks at June 30, 2009 and 2008 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

# Decatur County Hospital

## Notes to Financial Statements June 30, 2009 and 2008

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The Hospital manages the following risks in accordance with their formal investment policy:

*Interest Rate Risk:* The Hospital's investment policy does not limit investments on interest rate risk. The Hospital complies with State of Iowa statutes in regards to interest rate risk.

*Custodial credit risk:* Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Hospital's investment policy requires the fund to be deposited into banking institutions that have the ability to collateralize any deposits made in excess of the Federal Deposit Insurance Corporation's insurance limits.

The Hospital's investments are carried at fair value. All bank deposit accounts are fully insured or collateralized by securities held by the Hospital's agent in the Hospital's name.

The composition of investments and assets limited as to use or restricted as of June 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Short-Term Investments:		
Certificates of deposit	\$ <u>1,825,240</u>	<u>220,256</u>
Assets Limited as to Use or Restricted:		
By the Board of Trustees for:		
Capital improvements:		
Cash and cash equivalents	\$ 67,084	51,063
Certificates of deposit	1,705,903	1,645,997
Accrued interest	<u>13,191</u>	<u>18,721</u>
Total assets limited as to use or restricted	\$ <u>1,786,178</u>	<u>1,715,781</u>

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2009 and 2008 is summarized as follows:

	<u>2009</u>	<u>2008</u>
Interest	\$ <u>75,479</u>	<u>134,260</u>

### (3) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

**Medicare** - Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The Hospital's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2007.

# Decatur County Hospital

## Notes to Financial Statements June 30, 2009 and 2008

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**Medicaid** - Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

The Hospital reports net patient services revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounted for approximately 52.4% and 8.7%, respectively, of the Hospital's gross patient service revenue for the year ended June 30, 2009, and 53.0% and 7.4%, respectively, for the year ended June 30, 2008. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2009 net patient service revenue increased approximately \$50,000, due to the removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, review and investigations.

A summary of patient service revenue and contractual adjustments for the years ended June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Gross patient service revenue:		
Hospital -		
Inpatient	\$ 1,704,136	1,768,054
Outpatient	8,599,653	8,788,053
Swingbed	891,844	760,247
Surgery Clinic	18,130	17,901
Total gross patient service revenue	<u>11,213,763</u>	<u>11,334,255</u>
Contractual adjustments:		
Medicare	(1,322,382)	(1,958,324)
Medicaid	(299,908)	(193,769)
Other	(939,127)	(826,649)
Charity care services	<u>(54,176)</u>	<u>(24,230)</u>
Total contractual adjustments	<u>(2,615,593)</u>	<u>(3,002,972)</u>
Net patient service revenue before provision for bad debt	<u>\$ 8,598,170</u>	<u>8,331,283</u>

# Decatur County Hospital

## Notes to Financial Statements June 30, 2009 and 2008

### (4) Composition of Patient Receivables

Patient receivables as of June 30, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Patient accounts	\$ 1,315,325	1,352,033
Less estimated third-party contractual adjustments	(203,405)	(206,000)
Less allowance for doubtful accounts	<u>(188,536)</u>	<u>(175,000)</u>
	<u>\$ 923,384</u>	<u>971,033</u>

The Hospital grants credits without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	29.8%	25.5%
Medicaid	8.4	6.3
Blue Cross	16.5	20.0
Other third party payor	17.9	24.1
Private pay	<u>27.4</u>	<u>24.1</u>
	<u>100.0%</u>	<u>100.0%</u>

### (5) Capital Assets

Capital assets and the related accumulated depreciation are summarized as follows:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2009</u>
Capital assets, not being depreciated:				
Land	\$ 44,272	--	--	44,272
Total capital assets, not being depreciated	<u>44,272</u>	<u>--</u>	<u>--</u>	<u>44,272</u>
Capital assets, being depreciated:				
Land improvements	116,814	--	--	116,814
Hospital buildings	4,242,803	48,021	--	4,290,824
Major moveable equipment	2,849,269	49,892	--	2,899,161
Total capital assets, being depreciated	<u>7,208,886</u>	<u>97,913</u>	<u>--</u>	<u>7,306,799</u>
Less accumulated depreciation:				
Land improvements	67,293	5,585	--	72,878
Hospital buildings	2,197,670	144,206	--	2,341,876
Major moveable equipment	1,986,074	264,718	--	2,250,792
Total accumulated depreciation	<u>4,251,037</u>	<u>414,509</u>	<u>--</u>	<u>4,665,546</u>
Total capital assets, being depreciated, net	<u>2,957,849</u>	<u>(316,596)</u>	<u>--</u>	<u>2,641,253</u>
Total capital assets, net	<u>\$ 3,002,121</u>	<u>(316,596)</u>	<u>--</u>	<u>2,685,525</u>

# Decatur County Hospital

## Notes to Financial Statements June 30, 2009 and 2008

	June 30, 2007	Additions	Transfers and Disposals	June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 44,272	--	--	44,272
Construction in progress	25,808	11,598	(37,406)	--
Total capital assets, not being depreciated	70,080	11,598	(37,406)	44,272
Capital assets, being depreciated:				
Land improvements	116,814	--	--	116,814
Hospital buildings	4,230,658	12,145	--	4,242,803
Major moveable equipment	2,608,156	203,707	37,406	2,849,269
Total capital assets, being depreciated	6,955,628	215,852	37,406	7,208,886
Less accumulated depreciation:				
Land improvements	59,799	7,494	--	67,293
Hospital buildings	2,055,947	141,723	--	2,197,670
Major moveable equipment	1,604,618	381,456	--	1,986,074
Total accumulated depreciation	3,720,364	530,673	--	4,251,037
Total capital assets, being depreciated, net	3,235,264	(314,821)	37,406	2,957,849
Total capital assets, net	\$ 3,305,344	(303,223)	--	3,002,121

Total depreciation for the year ended June 30, 2009 and 2008, including depreciation on rental property owned by the Hospital, was \$414,509 and \$530,673 respectively.

### (6) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2009 and 2008 consisted of the following:

	June 30, 2008	Borrowings	Payments	June 30, 2009	Due Within One Year
Great Western Bank (A)	\$ 530,676	--	(530,676)	--	--
American State Bank (B)	223,236	--	(223,236)	--	--
Capital Lease Obligations (C)	331,827	17,616	(100,167)	249,276	83,000
	\$ 1,085,739	17,616	(854,079)	249,276	83,000

  

	June 30, 2007	Borrowings	Payments	June 30, 2008	Due Within One Year
Great Western Bank (A)	\$ 592,348	--	(61,672)	530,676	58,263
American State Bank (B)	270,370	--	(47,134)	223,236	49,416
Capital Lease Obligations (C)	532,268	--	(200,441)	331,827	101,553
	\$ 1,394,986	--	(309,247)	1,085,739	209,232

(A) Great Western note payable requires monthly payments of principal and interest at variable rates ranging from 5.59% to 7.95%. This note is collateralized by patient revenue. The note was paid off in its entirety during March 2009.

(B) American State Bank note payable requires monthly payments of principal and interest with interest at a rate of 5.5%. This note is collateralized by patient revenue. The note was paid off in its entirety during March 2009.

## Decatur County Hospital

### Notes to Financial Statements June 30, 2009 and 2008

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- (C) Capital lease obligations at varying rates of imputed interest from 5.0% to 7.2% maturing through 2014 and collateralized by leased equipment.

Assets recorded under capital leases consist of fixed and major moveable equipment items and building components with totals as follows:

	<u>2009</u>	<u>2008</u>
Cost	\$ 475,927	1,366,794
Less: Accumulated amortization	<u>(265,857)</u>	<u>(945,623)</u>
Net book value	<u>\$ 210,070</u>	<u>421,171</u>

The following is a schedule by year of future minimum lease payments under capital lease obligations as of June 30, 2009:

	<u>2009</u>
2010	\$ 98,111
2011	96,682
2012	73,523
2013	4,188
2014	<u>4,188</u>
Total minimum lease payments	276,692
Less amount representing interest	<u>(27,416)</u>
Present value of future minimum lease payments	<u>\$ 249,276</u>

#### (7) Pension and Retirement Benefits

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 4.10% of their annual salary and the Hospital is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$207,060, \$180,170, and \$176,741, respectively.

#### (8) Management Contract

The Hospital has a contractual arrangement with Mercy Medical Center – Des Moines (Mercy), under which Mercy provides management and other services to the Hospital. The arrangement does not alter the authority of responsibility of the Board of Trustees of the Hospital. The amount paid to Mercy for services during the years ended June 30, 2009 and 2008 were approximately \$386,100 and \$357,200, respectively.

# Decatur County Hospital

## Notes to Financial Statements June 30, 2009 and 2008

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### (9) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$3,000,000 aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

### (10) Commitments and Contingencies

#### Operating Leases

The Hospital leases certain equipment under an operating lease expiring in January 2013. Total rental expense in 2009 and 2008 for this equipment was \$203,556 and \$219,859, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2009, that have initial lease terms in excess of one year:

<u>Year</u>	<u>Principal</u>
2010	\$ 202,059
2011	74,265
2012	21,561
2013	2,705

#### Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters are adequately reserved for and will be resolved without material adverse effect on the Hospital's financial position or results from operations.

## Decatur County Hospital

### Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets Budget and Actual (Cash Basis) For the Year Ended June 30, 2009

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This budgetary comparison is presented as required supplementary information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from Decatur County Hospital preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 608,111	--	608,111	581,820	26,291
Estimated other revenues / receipts	8,537,470	45,680	8,583,150	8,245,958	337,192
	<u>9,145,581</u>	<u>45,680</u>	<u>9,191,261</u>	<u>8,827,778</u>	<u>363,483</u>
Expenses / Disbursements	<u>8,410,097</u>	<u>635,429</u>	<u>9,045,526</u>	<u>9,365,963</u>	<u>320,437</u>
Net	735,484	(589,749)	145,735	<u><u>\$ (538,185)</u></u>	<u><u>683,920</u></u>
Balance beginning of year	<u>6,719,134</u>	<u>(1,685,263)</u>	<u>5,033,871</u>		
Balance end of year	<u><u>\$ 7,454,618</u></u>	<u><u>(2,275,012)</u></u>	<u><u>5,179,606</u></u>		



# Decatur County Hospital

# Exhibit 1

## Net Patient Service Revenue For the Years Ended June 30, 2009 and 2008

	2009				2008			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES:								
Medical, surgical and obstetrics	\$ 576,535	307,574	--	884,109	584,737	257,340	--	842,077
Skilled nursing	--	--	264,280	264,280	--	--	192,575	192,575
Respite	--	--	111,048	111,048	--	--	129,124	129,124
Observation	--	209,187	--	209,187	--	259,276	--	259,276
	<u>576,535</u>	<u>516,761</u>	<u>375,328</u>	<u>1,468,624</u>	<u>584,737</u>	<u>516,616</u>	<u>321,699</u>	<u>1,423,052</u>
OTHER PROFESSIONAL SERVICES:								
Operating and recovery rooms	129,753	983,609	4,480	1,117,842	96,441	1,004,908	1,820	1,103,169
Laboratory	184,952	1,426,220	39,570	1,650,742	164,364	1,328,891	44,597	1,537,852
Central services and supply	23,954	96,128	3,901	123,983	23,856	109,000	1,598	134,454
Emergency and outpatient service	2,480	642,821	--	645,301	3,586	604,638	--	608,224
Ambulance	6,791	666,489	--	673,280	8,285	729,300	--	737,585
Electrocardiology	5,240	58,453	655	64,348	5,988	61,971	240	68,199
Radiology	48,133	1,023,767	8,897	1,080,797	60,514	1,004,310	15,757	1,080,581
CT scanner	62,550	532,191	--	594,741	60,441	432,556	--	492,997
Vascular imaging	8,991	206,167	840	215,998	7,735	143,762	1,197	152,694
Cardiac rehab	--	139,320	408	139,728	--	115,464	610	116,074
Pharmacy	420,460	1,410,325	198,024	2,028,809	477,863	1,792,730	178,116	2,448,709
Anesthesiology	48,127	404,633	--	452,760	35,497	447,375	--	482,872
Respiratory therapy	174,702	149,529	117,026	441,257	222,120	180,831	63,379	466,330
Physical therapy	8,369	274,627	62,087	345,083	10,958	258,524	51,570	321,052
Occupational therapy	2,539	53,540	79,009	135,088	4,891	46,863	75,939	127,693
Speech therapy	560	7,724	1,619	9,903	778	4,600	3,725	9,103
Clinics	--	18,130	--	18,130	--	17,901	--	17,901
Diabetic education	--	7,349	--	7,349	--	5,714	--	5,714
	<u>1,127,601</u>	<u>8,101,022</u>	<u>516,516</u>	<u>9,745,139</u>	<u>1,183,317</u>	<u>8,289,338</u>	<u>438,548</u>	<u>9,911,203</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>1,704,136</u>	<u>8,617,783</u>	<u>891,844</u>	<u>11,213,763</u>	<u>1,768,054</u>	<u>8,805,954</u>	<u>760,247</u>	<u>11,334,255</u>
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(2,561,417)				(2,978,742)
Charity care services and other discounts, based on charges forgone				<u>(54,176)</u>				<u>(24,230)</u>
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT				8,598,170				8,331,283
PROVISION FOR BAD DEBT				<u>(325,937)</u>				<u>(314,868)</u>
NET PATIENT SERVICE REVENUE	\$			<u><u>8,272,233</u></u>				<u><u>8,016,415</u></u>

**Other Operating Revenue**  
**For the Years Ended June 30, 2009 and 2008**

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	<u>2009</u>	<u>2008</u>
Meals sold	\$ 41,861	40,165
Laundry	992	1,037
Medical records transcriptions	20,689	3,412
Other	<u>105,010</u>	<u>117,263</u>
	\$ <u><u>168,552</u></u>	<u><u>161,877</u></u>

# Decatur County Hospital

# Exhibit 3

## Departmental Expenses For the Years Ended June 30, 2009 and 2008

	2009				2008			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
NURSING SERVICES:								
Medical and surgical	\$ 68,043	--	3,277	71,320	66,558	--	2,467	69,025
Administration	845,327	4,780	60,788	910,895	800,084	1,210	55,186	856,480
	<u>913,370</u>	<u>4,780</u>	<u>64,065</u>	<u>982,215</u>	<u>866,642</u>	<u>1,210</u>	<u>57,653</u>	<u>925,505</u>
OTHER PROFESSIONAL SERVICES:								
Operating and recovery room	170,298	68	63,814	234,180	166,017	--	132,278	298,295
Central services and supply	--	--	39,913	39,913	--	--	12,291	12,291
Emergency room	215,655	400,944	9,265	625,864	208,866	342,391	14,803	566,060
Radiology	174,272	294,080	270,011	738,363	190,028	290,091	263,687	743,806
Ambulance	191,420	--	26,142	217,562	206,145	--	28,902	235,047
Ultrasound	--	--	33,297	33,297	--	--	30,572	30,572
Cardiac rehab	63,972	100,140	8,342	172,454	52,158	58,753	4,954	115,865
Laboratory	151,946	2,692	278,847	433,485	147,004	2,439	311,324	460,767
Pharmacy	36,327	140,989	370,966	548,282	36,588	134,330	481,794	652,712
Social services	13,267	--	--	13,267	13,019	875	--	13,894
Home health	47,943	4,042	7,293	59,278	22,022	1,804	3,530	27,356
Anesthesiology	--	152,620	2,580	155,200	--	177,881	4,887	182,768
Respiratory therapy	89,333	15,609	26,117	131,059	80,497	26,784	39,026	146,307
Physical therapy	124,047	476	18,386	142,909	126,120	5,659	11,371	143,150
Occupational therapy	28,957	8,151	529	37,637	40,071	25,683	1,642	67,396
Speech therapy	13,929	--	2,208	16,137	--	--	--	--
Clinics	26,083	--	2,963	29,046	22,245	--	2,763	25,008
Medical records	142,575	220	24,809	167,604	100,169	5,584	23,957	129,710
Quality assurance	24,640	--	755	25,395	21,924	--	412	22,336
	<u>1,514,664</u>	<u>1,120,031</u>	<u>1,186,237</u>	<u>3,820,932</u>	<u>1,432,873</u>	<u>1,072,274</u>	<u>1,368,193</u>	<u>3,873,340</u>
GENERAL SERVICES:								
Plant operation and maintenance	112,212	3,224	381,727	497,163	116,059	--	292,600	408,659
Laundry and linen	15,196	30,776	(3,415)	42,557	12,519	29,101	(2,396)	39,224
Dietary	180,625	32,611	76,844	290,080	175,993	29,466	76,298	281,757
Housekeeping	88,580	3,856	15,315	107,751	86,434	3,166	25,336	114,936
	<u>396,613</u>	<u>70,467</u>	<u>470,471</u>	<u>937,551</u>	<u>391,005</u>	<u>61,733</u>	<u>391,838</u>	<u>844,576</u>
ADMINISTRATIVE SERVICES	<u>446,316</u>	<u>229,811</u>	<u>409,214</u>	<u>1,085,341</u>	<u>450,335</u>	<u>235,203</u>	<u>345,699</u>	<u>1,031,237</u>
NONDEPARTMENTAL:								
Employee benefits	--	--	1,063,393	1,063,393	--	--	964,731	964,731
Depreciation and amortization	--	--	414,509	414,509	--	--	530,673	530,673
Interest	--	--	43,246	43,246	--	--	72,526	72,526
Insurance	--	--	62,910	62,910	--	--	71,558	71,558
	<u>--</u>	<u>--</u>	<u>1,584,058</u>	<u>1,584,058</u>	<u>--</u>	<u>--</u>	<u>1,639,488</u>	<u>1,639,488</u>
TOTAL EXPENSES	\$ <u>3,270,963</u>	<u>1,425,089</u>	<u>3,714,045</u>	<u>8,410,097</u>	<u>3,140,855</u>	<u>1,370,420</u>	<u>3,802,871</u>	<u>8,314,146</u>

**Patient Receivables and Allowance for Doubtful Accounts**  
**For the Years Ended June 30, 2009 and 2008**

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## ANALYSIS OF AGING:

Days Since Discharge	2009		2008	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 797,474	60.63 %	775,907	57.39 %
31 - 60	217,443	16.53	234,513	17.34
61 - 90	87,459	6.65	99,961	7.39
91 - 120	51,511	3.92	91,065	6.74
121 and over	161,438	12.27	150,587	11.14
	<u>1,315,325</u>	<u>100.00 %</u>	<u>1,352,033</u>	<u>100.00 %</u>
Less:				
Allowance for doubtful accounts	(188,536)		(175,000)	
Allowance for contractual adjustments	<u>(203,405)</u>		<u>(206,000)</u>	
	<u>\$ 923,384</u>		<u>971,033</u>	

## ALLOWANCE FOR DOUBTFUL ACCOUNTS:

	2009	2008
Balance, beginning of year	\$ 175,000	170,200
Provision of uncollectible accounts	325,937	314,868
Recoveries of accounts previously written off	177,843	148,788
Accounts written off	<u>(490,244)</u>	<u>(458,856)</u>
Balance, end of year	<u>\$ 188,536</u>	<u>175,000</u>

## Inventories / Prepaid Expenses

For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
INVENTORY:		
Medical/surgical	\$ --	1,156
Emergency	--	1,689
Radiology	--	2,902
Laboratory	42,951	38,814
Plant operations and maintenance	45,509	19,190
Respiratory therapy	--	1,126
Physical therapy	--	--
Dietary	6,580	6,307
Operating room	19,598	28,447
Pharmacy	48,510	46,954
Housekeeping	756	2,227
Laundry	<u>24,276</u>	<u>15,092</u>
	<u>\$ 188,180</u>	<u>163,904</u>
PREPAID EXPENSES:		
Insurance	\$ 49,041	40,180
Maintenance contracts	<u>92,371</u>	<u>101,648</u>
	<u>\$ 141,412</u>	<u>141,828</u>

## Financial Statistical Highlights

For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Patient days:		
Adult and pediatric-		
Medicare	522	577
Other	<u>329</u>	<u>374</u>
	851	951
Swing bed - Skilled	868	668
Respite	<u>781</u>	<u>975</u>
Total	<u><u>2,500</u></u>	<u><u>2,594</u></u>
Patient discharges:		
Adult and pediatric-		
Medicare	158	182
Other	<u>121</u>	<u>129</u>
	279	311
Swing bed - Skilled	75	59
Respite	<u>9</u>	<u>10</u>
Total	<u><u>363</u></u>	<u><u>380</u></u>
Average length of stay:		
Adult and pediatric-		
Medicare	3.30 days	3.17 days
Other	2.72 days	2.90 days
Swing bed - Skilled	11.57 days	11.32 days
Respite	86.78 days	97.50 days
Surgical procedures	423	440
Emergency room visits	2,524	2,599
Number of employees - full-time equivalents	87.17	86.26

**Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters Based  
on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards**

To the Board of Trustees of  
Decatur County Hospital  
Leon, Iowa:

We have audited the financial statements of Decatur County Hospital (Hospital), as of and for the year ended June 30, 2009, and have issued our report thereon dated November 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items II-A-09 and II-B-09 to be significant deficiencies in internal control over financial reporting:

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Hospital's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying schedule of findings and questioned costs.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This Hospital's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Decatur County Hospital, and other parties to whom Decatur County Hospital may report. This report is not intended to and should not be used by anyone other than those specified parties.

*Seim Johnson Sestek & Quist, LLP*

Omaha, Nebraska,  
November 23, 2009.



# Decatur County Hospital

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2009

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### Part I: Summary of the Independent Auditor's Results

- a. An unqualified opinion was issued on the financial statements.
- b. Two significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.

### Part II: Findings Related to the Financial Statements

#### Instances of Non-Compliance

No matters were reported.

#### Significant Deficiency

##### II-A-09

<i>Criteria:</i>	The design or operation of the Hospital's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis.
<i>Condition:</i>	We identified misstatements in the financial statements during the audit that were not initially identified by the Hospital's internal controls.
<i>Effect:</i>	Audit entries were required to adjust the net realizable value of accounts receivable and estimated third party payor settlements.
<i>Cause:</i>	Allowance and accrual balances requiring estimation and judgment were incorrectly recorded.
<i>Recommendation:</i>	The Hospital should review and revise its estimation process of the stated allowance and accrual accounts to ensure that financial statements are properly stated.
<i>Response:</i>	The Hospital concurs with the recommendation.
<i>Conclusion:</i>	Response accepted.

#### Significant Deficiency

##### II-B-09

<i>Criteria:</i>	Proper segregation of duties ensures an adequate internal control structure.
<i>Condition:</i>	We identified instances where a lack of segregation of duties exists.
<i>Effect:</i>	Without proper segregation of duties, a greater risk of fraud and defalcation may exist.
<i>Cause:</i>	Due to a limited number of administrative personnel, a lack of segregation of duties exists.
<i>Recommendation:</i>	We recommend the Hospital continue to monitor and improve its segregation of duties.

# Decatur County Hospital

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2009

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*Response:* Management is aware of this control deficiency and believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties.

*Conclusion:* Response accepted.

### Part III: Other Findings Related to Required Statutory Reporting

#### **III-A-09**

Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2009.

#### **III-B-09**

Certified Budget: Hospital disbursements during the year ended June 30, 2009, did not exceed budgeted amounts. However, two instances of non-compliance related to the certified budget were noted. The amendment to the budget was not adopted until June 29, 2009, when expenditures exceeded original budgeted expenditures. Chapter 24.9 of the Code of Iowa requires amendments to be adopted by May 31 and amendments to be adopted before actual expenditures exceed budgeted.

Recommendation: We recommend that the Board monitor expenditures and propose amendments before the May 31 deadline and before actual expenditures exceed those budgeted.

Response: Management is aware of the delayed amendment and will meet deadlines in the future.

Conclusion: Response accepted.

#### **III-C-09**

Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General opinion dated April 25, 1979.

#### **III-D-09**

Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

#### **III-E-09**

Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.15 of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said hospital to \$1,500 without publicly invited and opened written competitive bids.

#### **III-F-09**

Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

#### **III-G-09**

Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy were noted.

## **Decatur County Hospital**

### **Schedule of Findings and Questioned Costs For the Year Ended June 30, 2009**

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#### **III-H-09**

Publication of Bills Allowed and Salaries: Chapter 347.13(14) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

## **Decatur County Hospital**

### **Summary Schedule of Prior Year Audit Findings For the Year Ended June 30, 2009**

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There were no prior year audit findings.

## **Decatur County Hospital**

### **Audit Staff**

**For the Year Ended June 30, 2009**

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**This audit was performed by:**

- Randy D. Hoffman, FHFMA, CPA, Partner
- Jeremy J. Behrens, CHFP, CPA, Manager
- Natalie E. Pape, Staff Auditor
- Andrew J. DeLashmutt, Staff Auditor